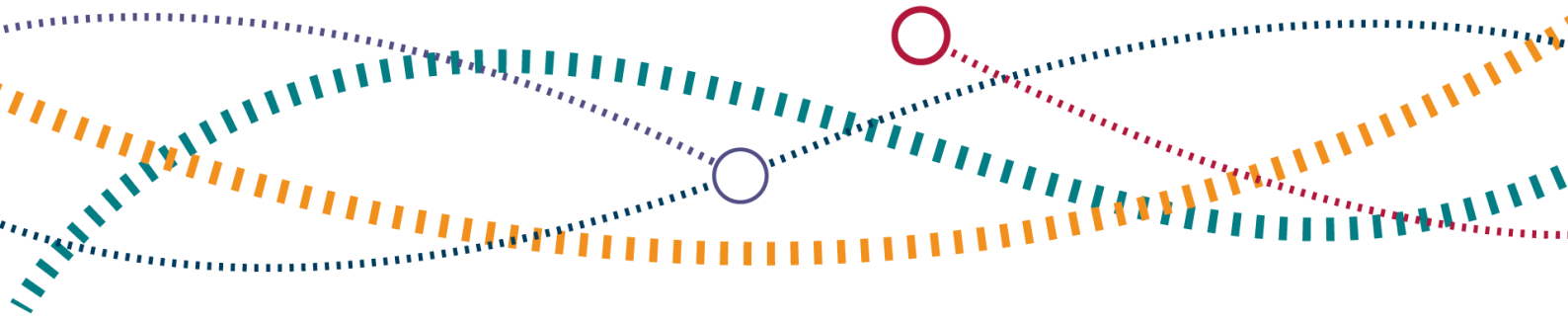
OFFICE OF RAIL AND ROAD

Monitoring open access

2023 Update

18 May 2023



Contents

Introduction and summary

Executive summary

This report provides an update to our ongoing monitoring of open access passenger services on the Great Britain (GB) rail network. In March 2023, we concluded several interviews with stakeholders to monitor the current health of the market. This report also includes a summary of data relating to quality of service and the recovery of services by open access operators following the COVID-19 pandemic.

This report is the fourth in our annual series of open access monitoring. In April 2022, we published our third monitoring report which also contained an economic appraisal of historical open access operator entry, for which we commissioned consultancy firm Systra. That report found that open access has historically driven net benefits on all the route types analysed and, in aggregate, driven net benefits under a range of modelling assumptions. We refer the interested reader to that report.

In our 2023 report, we find that, following the COVID-19 pandemic, there has been continued growth in the open access market. Following the pandemic, open access operators[1] have tended to recover passengers and revenues quicker than other operators. We also find that there is no notable difference between the punctuality of contracted and open access operators. There has been a slightly bigger proportion of complaints for open access operators, but with a significant decrease in the number of complaints made to Grand Central. In addition, whilst there has been a significant reduction of cancellations for open access operators; open access operators tend to have higher compensation claims compared to other long-distance operators. We note that the open access operators have requested more clarity and transparency in the track access application process. We also outline the latest developments in open access competition, including the approval of a new open access operator, Grand Union Trains, which will offer a new train service on the Great Western Main Line, between Carmarthen and London. Grand Union Trains has access rights to run services from December 2024.

The objective of our work in this report is to assess and develop the evidence base relating to open access passenger services as part of ongoing, and routine monitoring of rail markets. We recognise the direct impact of open access rail services on funders. We take this into account through our 'not primarily abstractive' (NPA) test which looks at whether

[1] open access operators are companies that provide passenger train services on a particular route or network without having exclusive rights or a franchise agreement to operate on that route. In Great Britain, Grand Central, Hull Trains, and Lumo are open access operators.

the new services would generate sufficient new revenue, not just take it from current operators. In our 2018 Periodic Review, we introduced an Infrastructure Cost Charge (ICC) for open access operators. This policy aimed to facilitate increased on-rail competition between passenger services over the longer-term, by allowing open access operators to benefit from potentially greater access to the network, while requiring that they contribute towards Network Rail's recovery of fixed costs where they are able to do so. Currently just one open access operator (Lumo) is liable to pay this charge, on a phased-in basis.[2] Our forthcoming draft determination for Periodic Review (PR23) will update our proposals for track access charges, including the ICC, for the five-year control period starting on 1 April 2024 (CP7).

This monitoring report is intended to provide transparency of our findings from our monitoring of the open access market. It is not a statement of ORR's policy about how we will carry out our role in regulating access to the network. We emphasise that we would consider any future applications for new or expanded open access services in line with our established policies and guidance, and in line with our full range of statutory duties, on a case-by-case basis.

We intend to continue to monitor the market for open access in a proportionate way. We value stakeholder input into this process, and we therefore welcome all comments and suggestions from interested parties. These can be submitted by email to competition@orr.gov.uk.

[2] The new Grand Union train service on the Great Western Main Line, between Carmarthen and London, will also be liable to pay an ICC for a portion of this route. See Section 2 for further details of this service).

1. 2023 monitoring activity

Introduction

1.1 In the first section of this chapter, the primary focus of our monitoring is on the service quality and other customer metrics on the East Coast Main Line (ECML). The ECML runs from London to Edinburgh, via the cities of Peterborough, York, and Newcastle. It is one of the busiest railway lines in the United Kingdom (UK), with frequent services. The ECML's main operator is LNER, whose services include regular long-distance expresses between London, the East Midlands, Yorkshire, the North East of England and Scotland. As of today, it is the only route characterised by significant head-to-head on-rail competition between contracted and open access operators.

1.2 We report on a range of quality metrics for the three operational open access operators: Grand Central, Hull Trains, and Lumo; and for LNER, which is the publicly funded operator on the ECML. We also chose to look at outcomes for other key long-distance operators, namely Avanti West Coast, Cross Country and East Midlands Railway. These contracted operators do not face competition from open access operators. Avanti West Coast and Cross Country have both been chosen as comparators because both operate (or operated) long distance services and may be expected to have similar passenger profiles to those travelling on the ECML. East Midlands Railway runs a mixture of long-distance inter-city services between London and cities in the East Midlands, as well as a number of local short and medium-distance services.

1.3 In the second section of this chapter, we present data on the trajectory of rail demand over the period covered by the pandemic and also immediately before and after it.

1.4 We present data showing how open access operators, and how the routes which are serviced by open access, are recovering in comparison to the wider rail industry. We present data on both volumes (number of journeys, passenger kilometres) and revenues (inflation adjusted).

1.5 We focus on calendar years, rather than financial year, data. We do this to enable us to present the most recent data available. At the time of publication, full-year data for financial year April 2022 to March 2023 was not available. We did not want to rely on April 2021 to March 2022 data alone, since, firstly, the beginning of the year was very close to the third national lockdown, which ran from January to

March 2021, and, secondly, our recently published passenger rail usage data has shown relatively strong growth in passenger numbers during April to December 2022 (i.e. the final three quarters of calendar year 2022) which we want this publication to reflect.

1.6 In the third section, we report on recent key developments in open access.

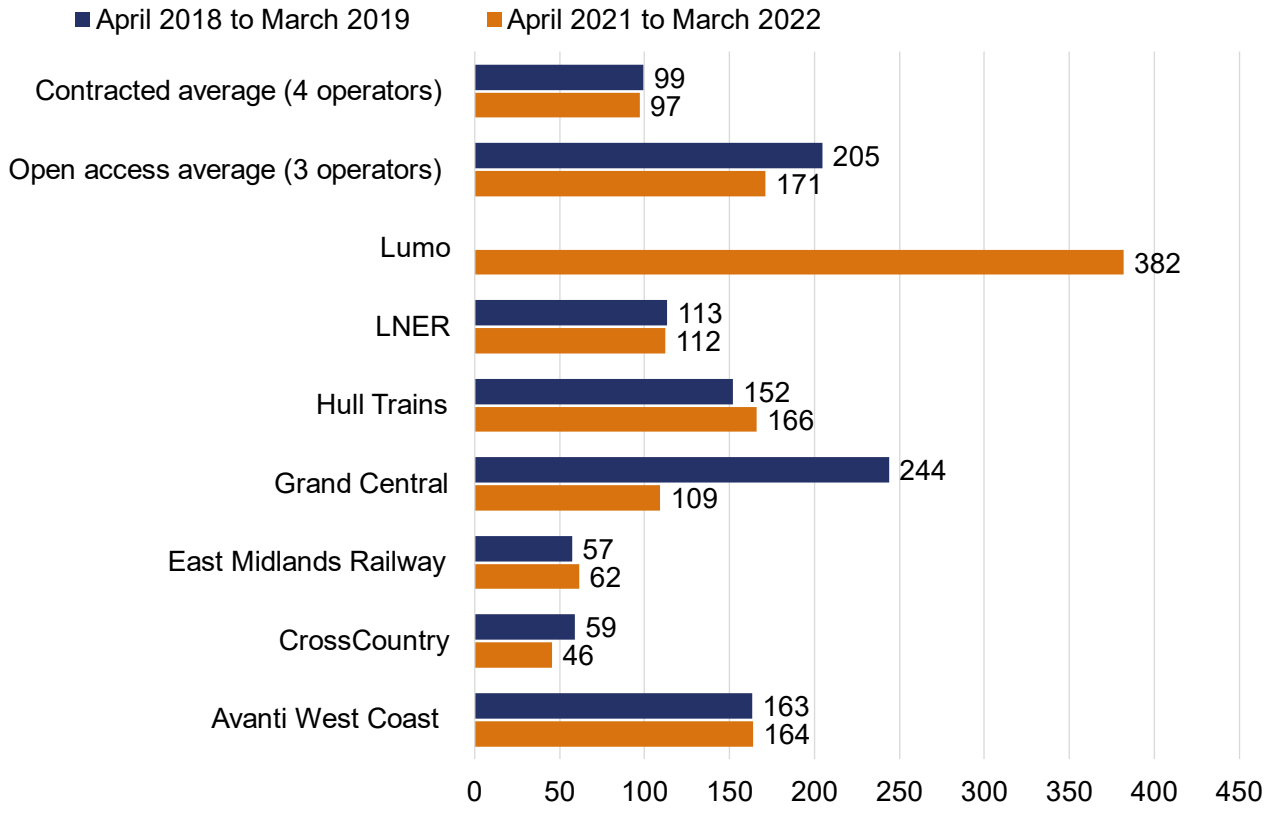
Service quality

1.7 We are interested in what impact on-rail competition has on passenger outcomes (through the price and quality of rail services). The key variables which we have monitored as a proxy for quality are complaints, delay compensation claims, passenger satisfaction scores and punctuality. We also report on the average age of each operator's rolling stock.

Complaints

1.8 We collect data on passenger complaints directly from train operating companies (TOCs) in each rail period. We report on the complaints rate by train operator below for April 2021 to March 2022 compared with April 2018 to March 2019.

Figure 1.1 Complaints rate by long-distance operator (number of complaints per 100,000 journeys), Great Britain, annual data, April 2018 to March 2019 and April 2021 to March 2022

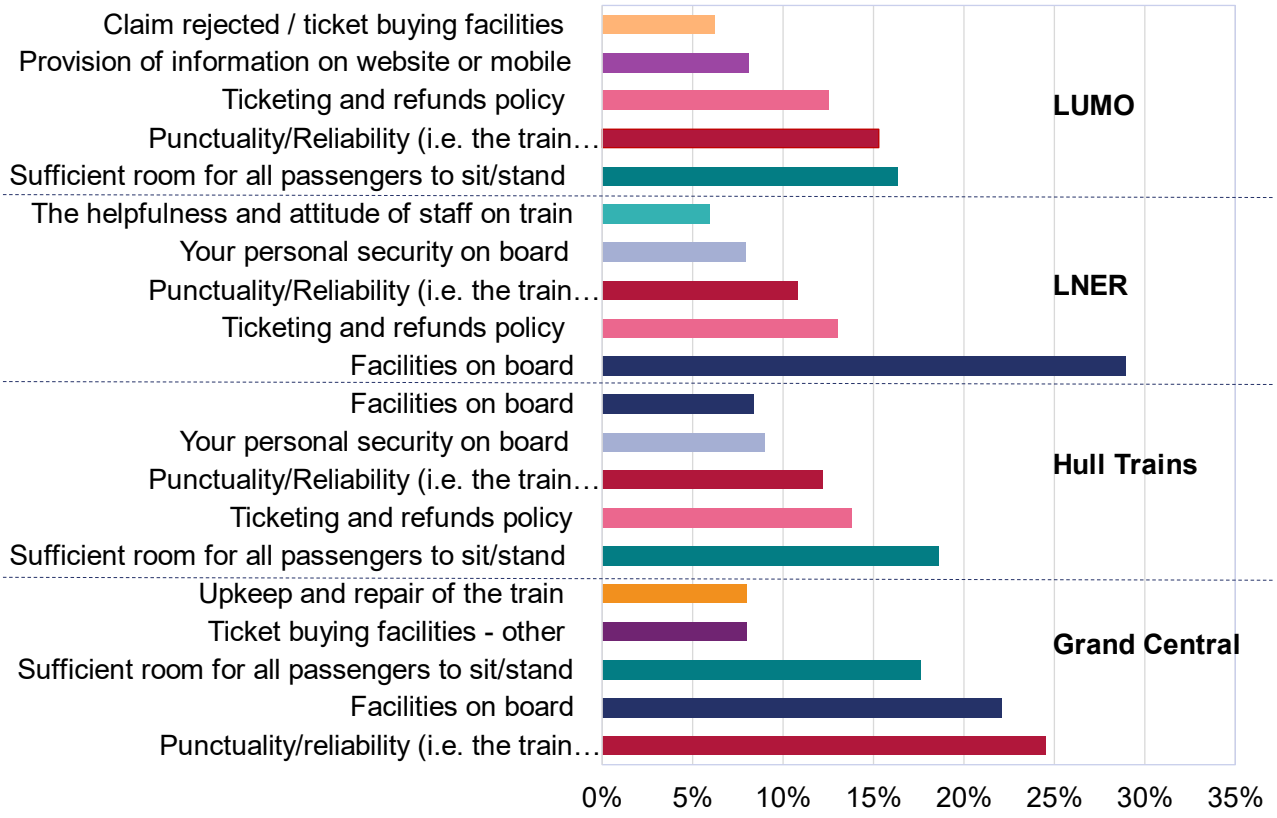


Source: TOC complaints rate data supplied to ORR. Available on ORR's data portal in Passenger rail service complaints statistics

1.9 Complaints are affected by a number of factors, including the length of journey (long-distance operators tend to receive more correspondence about their services) and exogenous events, meaning that we cannot draw strong conclusions from this data in isolation. We nonetheless note a significant decrease in the complaints rate for Grand Central over this period. Complaints per 100,000 journeys for the newest entrant, Lumo, are around twice those of the next highest operator, although it must be recognised that this was Lumo's first year of operation (it commenced service in October 2021).

1.10 We report on the top five complaint categories for each East Coast Main Line (ECML) operator in Figure 1.2 below.

Figure 1.2 Top five complaint categories for long-distance operators on the East Coast Main Line, annual data, April 2021 to March 2022



Source: Train operating companies' complaints data supplied to ORR. Available on ORR's data portal in Passenger rail service complaints statistics

1.11 These categories suggest that the complaints are mostly driven by issues directly concerning the trains operated, and the facilities available on them. It appears that the availability of sufficient room for passengers to sit or stand may be a more common concern for the passengers of open access services than for those of LNER, potentially reflecting the less frequent number of these services and the high demand for them.

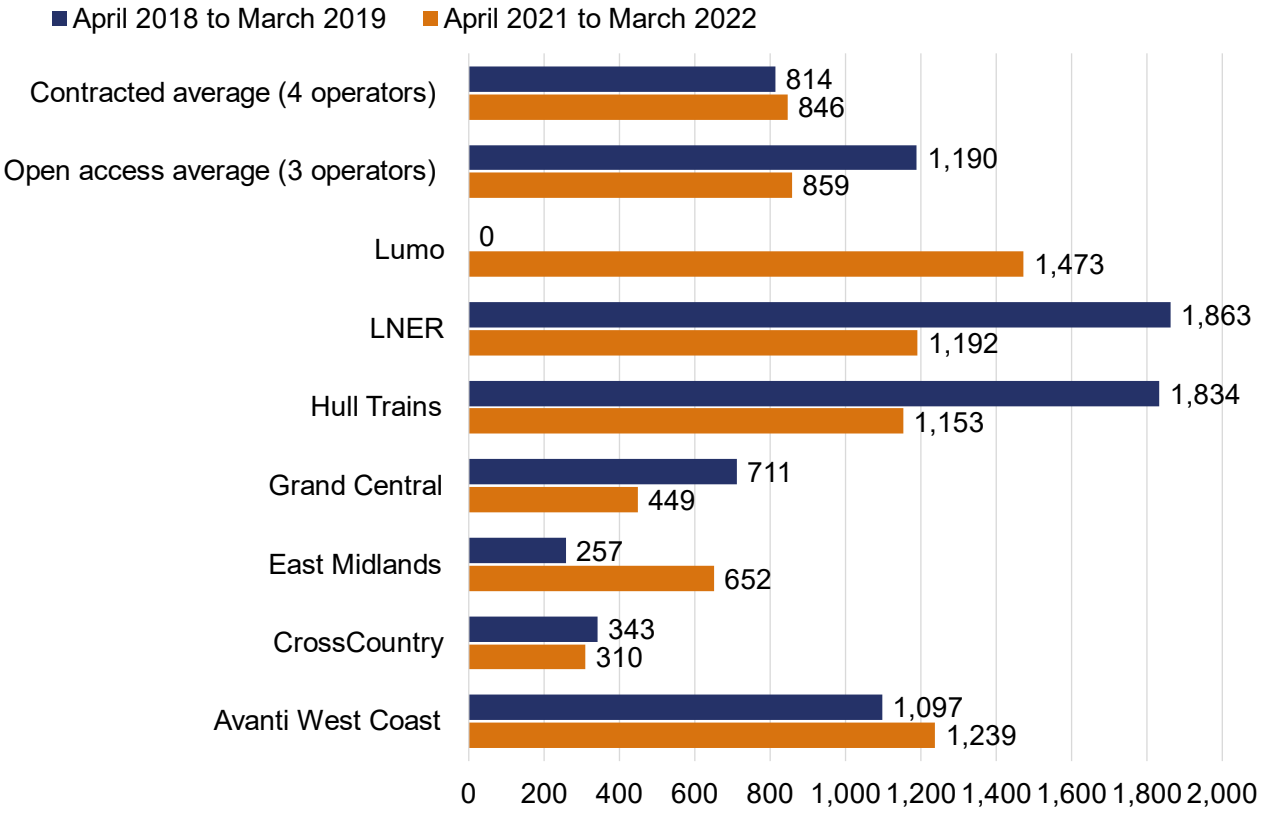
Delay compensation

1.12 We collect data in each rail period on the volume of compensation claims. These relate to journeys which are delayed or cancelled so as to trigger eligibility for delay compensation and where delay compensation claimed has been received and closed (within given time limits). The number of delay compensation claims closed per 100,000 passenger journeys is presented below.

1.13 Any comparison of delay compensation claim volumes between operators should be undertaken with caution due to the application of varying compensation eligibility thresholds. At the time of writing, LNER, Lumo and Hull Trains provide delay repay when delays of 30 minutes or more in duration are incurred, whilst Grand Central provides compensation for delays greater than 60 minutes in duration.

1.14 Compensation claims between April 2018 and March 2019 were markedly higher on average among open access operators compared to long distance contracted operators, albeit with significant variation between operators. This gap between open access and contracted operators appeared to have closed during the year April 2021 to March 2022.

Figure 1.3 Delay compensation claims closed per 100,000 journeys by long-distance operator, Great Britain, annual data, April 2018 to March 2019 and April 2021 to March 2022



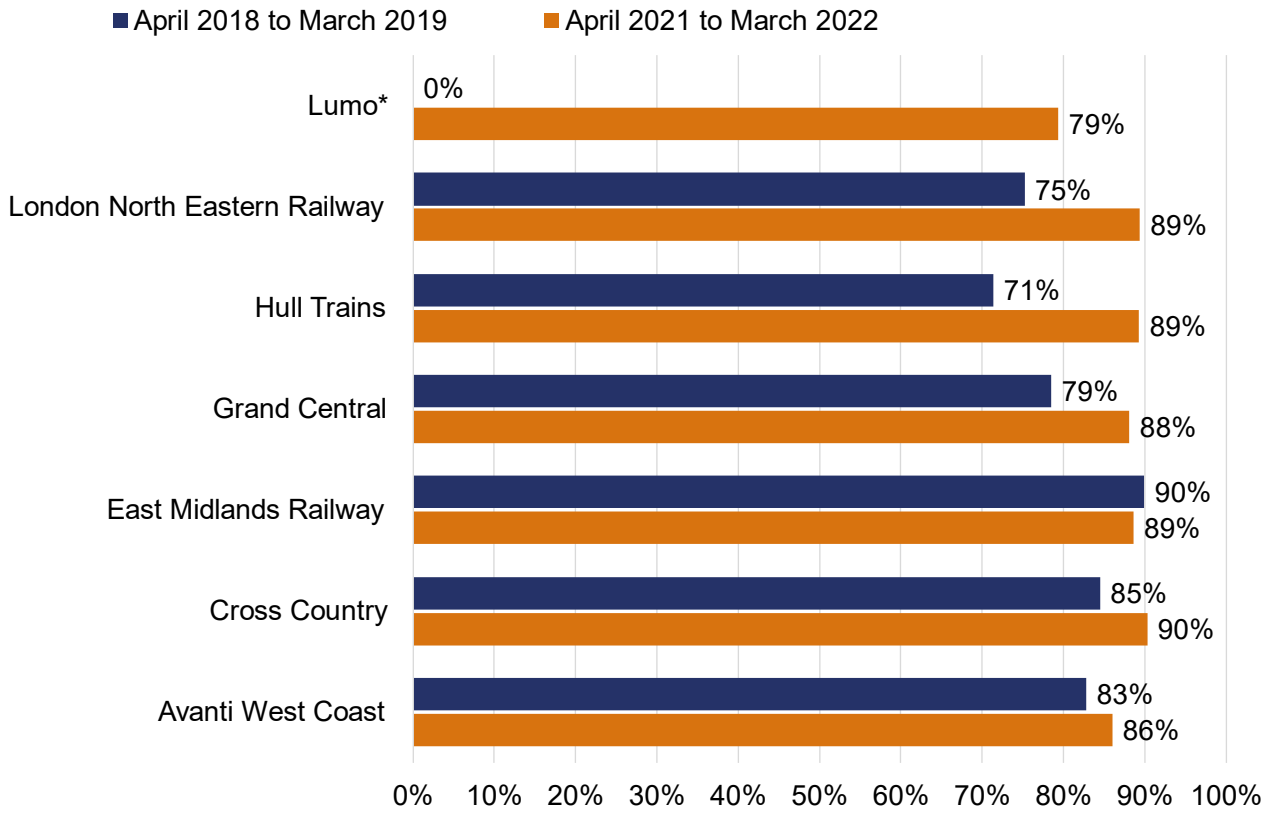
Source: TOC delay compensation data supplied to ORR. Available on ORR's data portal in Delay compensation claims statistics.

Punctuality and reliability

1.15 Network Rail produces data on passenger rail performance. This data is presented in the figures below.

1.16 We report below on the Public Performance Measure (PPM) which for long distance services reports the proportion of trains arriving at their final destination early or less than ten minutes after the scheduled arrival time.

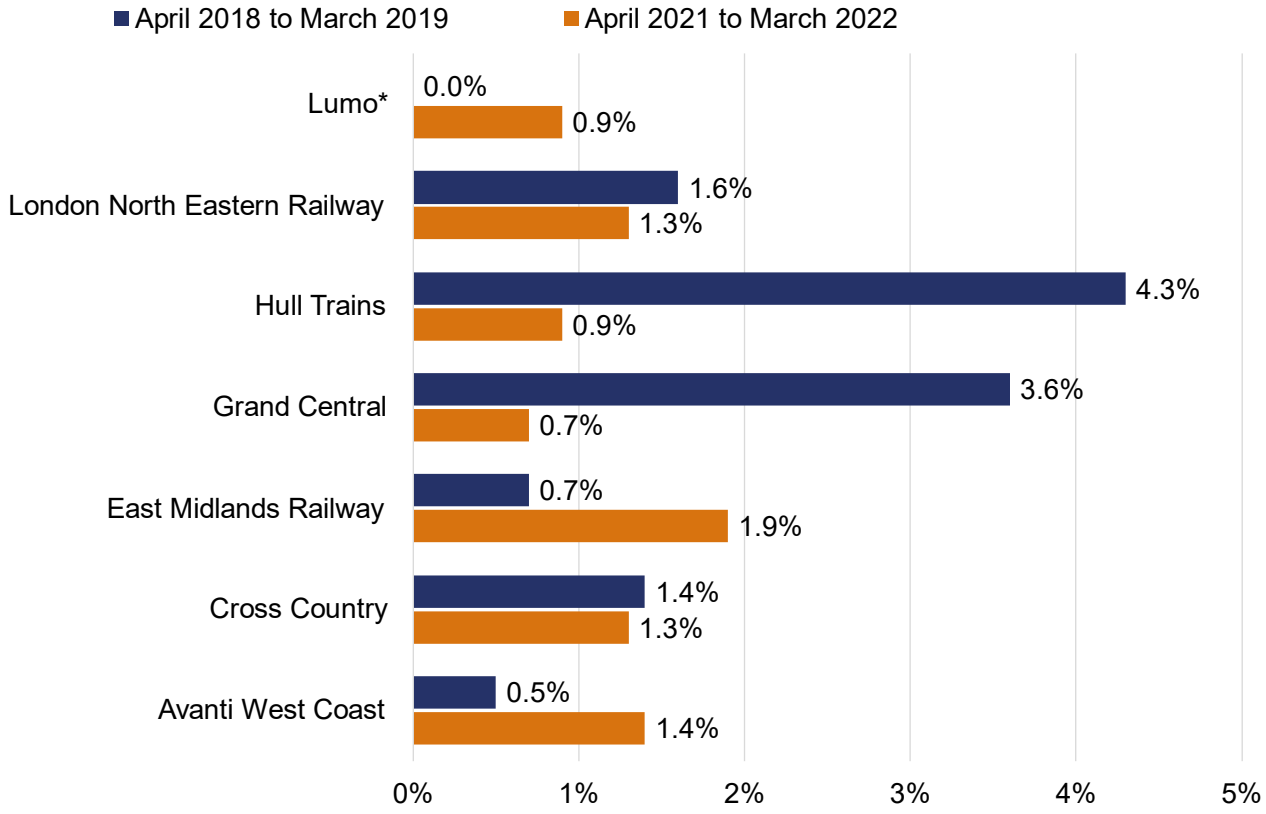
Figure 1.4 PPM by long-distance operator, Great Britain, annual data, April 2018 to March 2019 and April 2021 to March 2022



Source: Network Rail performance data supplied to ORR. Available on ORR's data portal in Passenger rail performance statistics.

1.17 Figure 1.4 shows a largely consistent trend across the board for all long-distance operators, with a tendency towards improvement in performance between April 2021 and March 2022 compared with April 2018 to March 2019. The post-pandemic performance improvement on the East Coast Mainline (on both open access and contracted services) appears to be greater than for comparators (i.e. East Midlands Railway, Cross Country, and Avanti West Coast). The availability of new data may enable us to consider performance trends in greater depth in future monitoring reports.

Figure 1.5 Cancellations attributable to each long-distance operator, Great Britain, annual data, April 2018 to March 2019 and April 2021 to March 2022



* For Lumo, the relevant period is October 2021 to March 2022.

Source: Network Rail performance data supplied to ORR. Available on ORR's data portal in Passenger rail performance statistics.

1.18 A further measure of performance is train cancellations. Figure 1.5 shows the number of trains that are cancelled as a percentage of trains planned. It is a score that weights full cancellations as one and part cancellations as a half. A lower cancellations score indicates better reliability.

1.19 There has been an overall reduction in the proportion of services classified as cancellations on the ECML, this reduction being particularly marked for open access operators. Between April 2021 and March 2022 cancellations with open access operators were lower than for other long-distance operators.

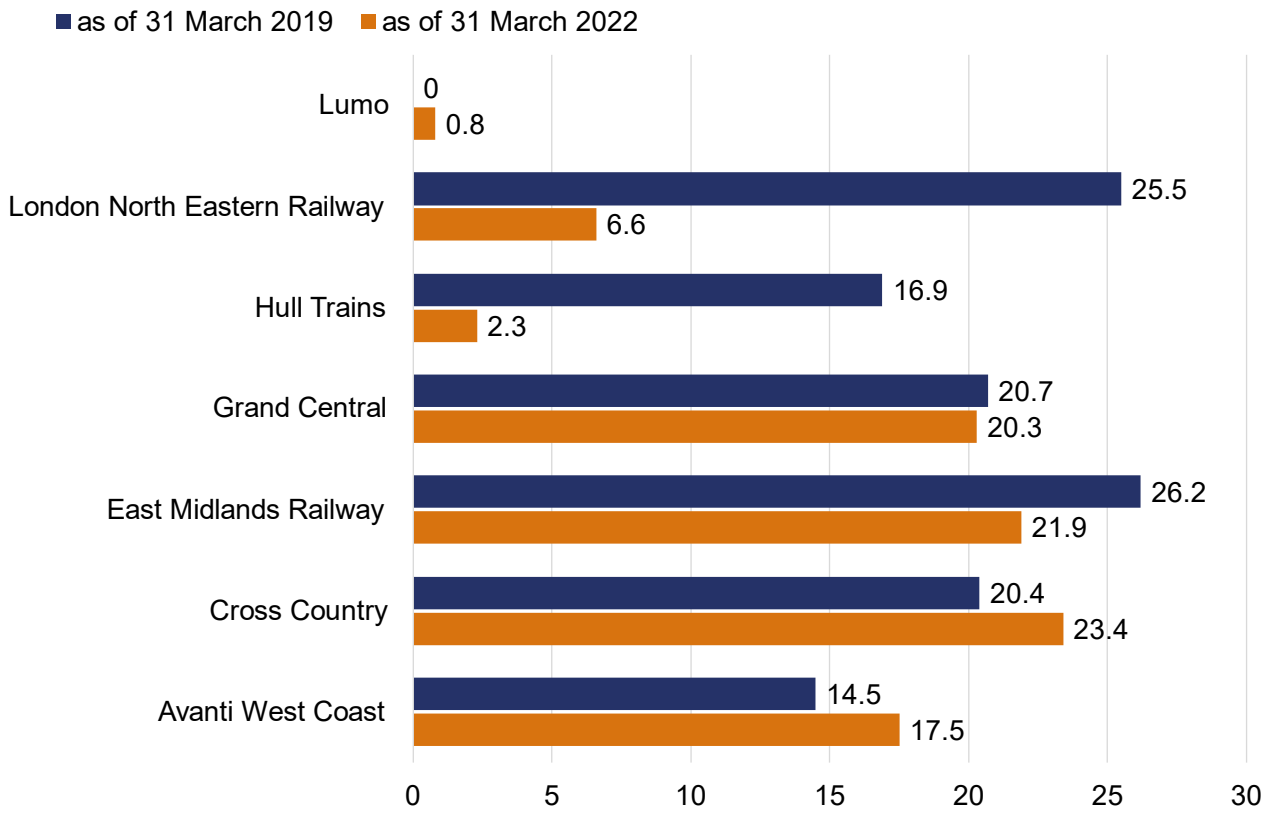
Rolling stock age

1.20 The age of operators' fleets and the passenger facilities provides another possible indicator of service quality. It is an indicator that needs to be interpreted with a

degree of care. For example, whilst new rolling stock may be more efficient and technologically advanced, existing trains can be refurbished during their lifetime to improve comfort for passengers, making the impact of rolling stock age on passenger satisfaction potentially ambiguous.

1.21 The data below shows how the continued introduction of new trains is resulting in a fall in average fleet age for some operators. The changes are most obvious for Hull Trains and LNER. Lumo has entered the market using new rolling stock.

Figure 1.6 Average age of rolling stock by long-distance operator, Great Britain, annual data, age as of 31 March 2019 and 31 March 2022

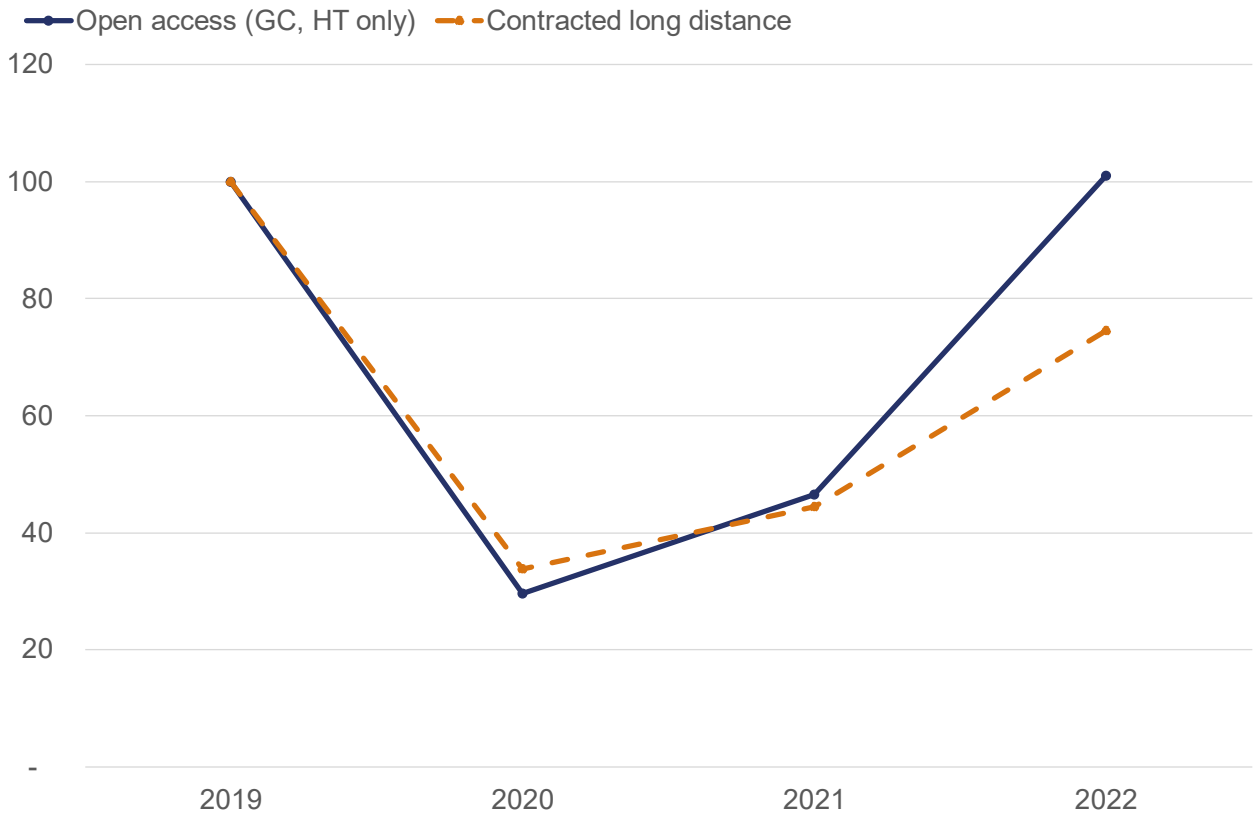


Source: Rail Safety and Standards Board. Available on ORR's data portal in Rail infrastructure and assets statistics.

Post-pandemic recovery in rail demand

1.22 We begin by presenting data on the number of passenger journeys made by customers of those long-distance open access operators (i.e. Grand Central and Hull Trains) and long-distance contracted operators (Avanti West Coast, Cross Country, Great Western Railway and LNER) who were active in both calendar years 2019 and 2022.

Figure 1.7 Number of journeys, (indexed, 2019 = 100), long-distance open access and long-distance contracted, Great Britain, annual data (calendar years), 2019 to 2022



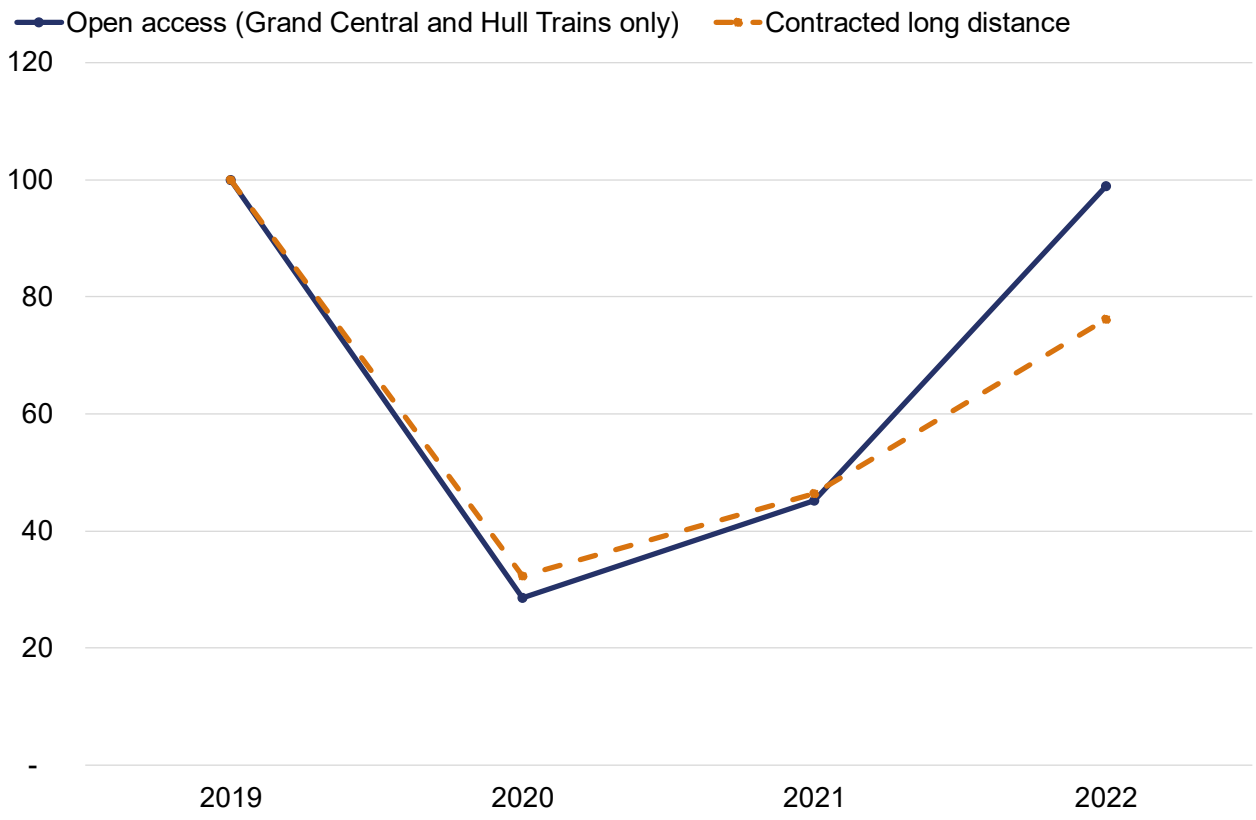
1.23 Source: LENNON data. Available on ORR's data portal in Passenger rail usage statistics. Figure 1.7 shows that:

(a) both contracted and open access long distance operators saw a very significant drop in passenger journeys caused by the pandemic, volumes falling below half of 2019 levels in both cases; but

(b) both classes of operators saw a marked further recovery of passenger journeys in 2022, this being particularly true for open access.

1.24 We repeat this comparison in Figure 1.8 below using an alternative volume measure, namely total passenger kilometres. The results of this comparison broadly mirror that undertaken using journeys data.

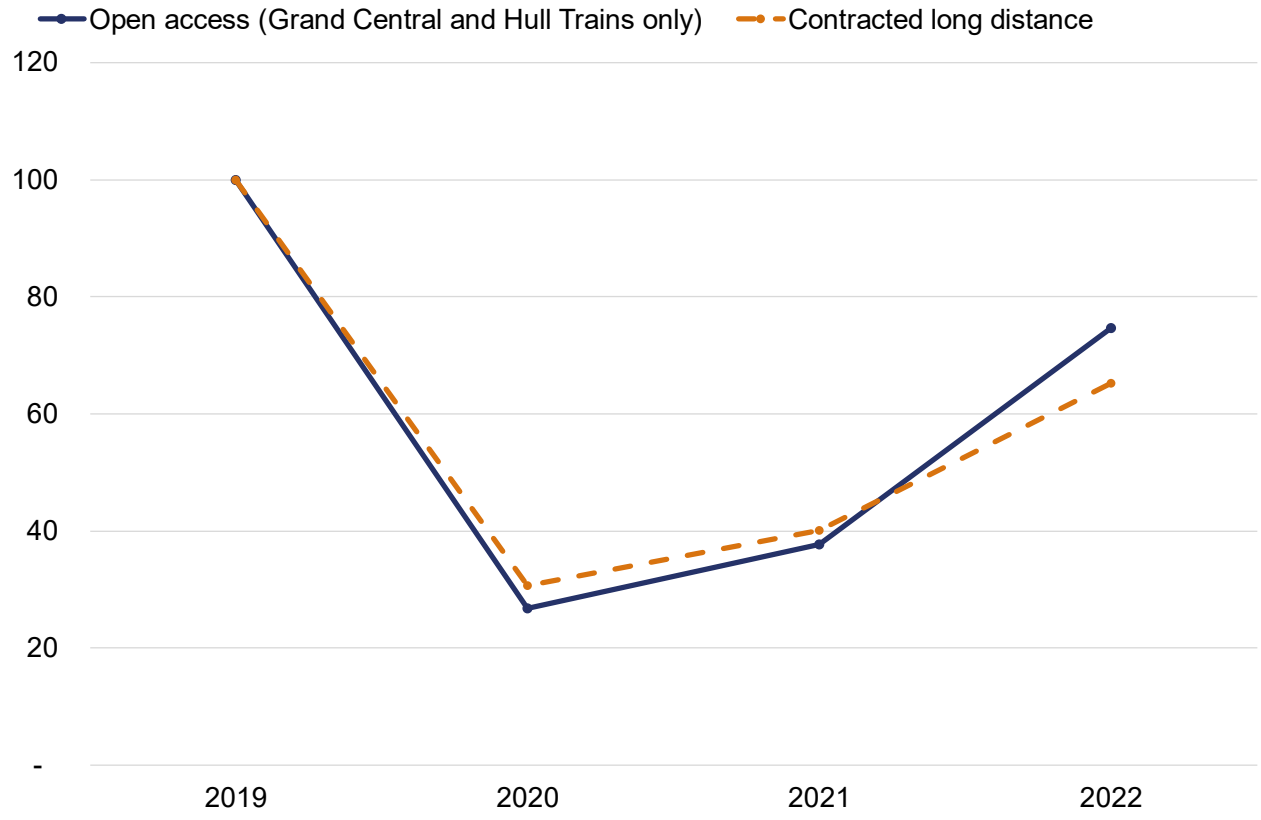
Figure 1.8 Total passenger kilometres, (indexed, 2019 = 100), long-distance open access and long-distance contracted, Great Britain, annual data (calendar years), 2019 to 2022



Source: LENNON data. Available on ORR's data portal in Passenger rail usage statistics.

1.25 Thirdly, in Figure 1.9 below we repeat the above comparisons using passenger revenue as our indicator of passenger rail demand.

Figure 1.9 Revenue (real terms, indexed, 2019 = 100), long-distance open access and long-distance contracted, Great Britain, annual data (calendar years), 2019 to 2022



Source: LENNON data.

1.26 Whilst the broad trajectory of revenue recovery has been the same as that for journeys and passenger kilometres, there are important differences. Notably:

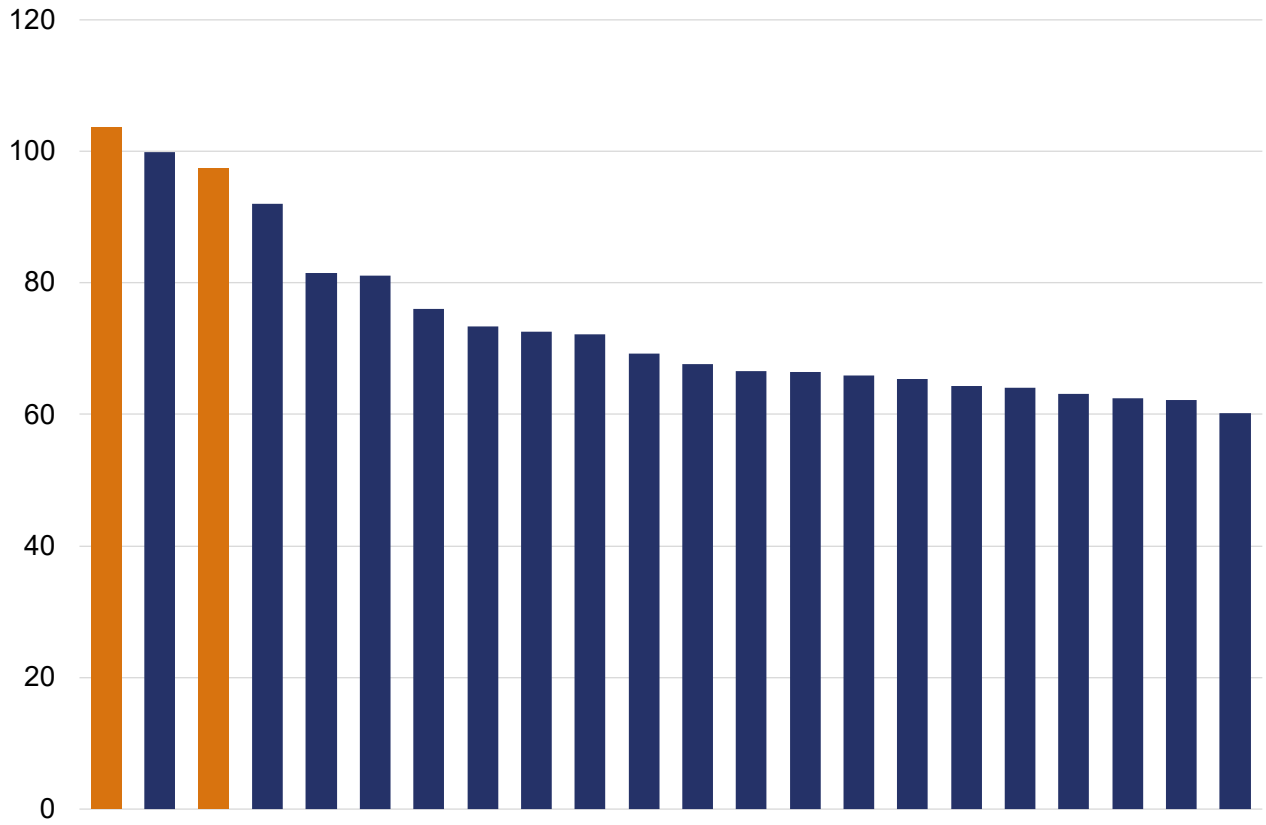
(a) The extent of revenue recovery in 2022 is much less than for volume, with 2022 real-term long distance revenues being markedly below 2019 levels for both open access and contracted operators; and

(b) The extent of revenue recovery appears to be somewhat greater for open access than contracted operators, albeit less strikingly so than with the volume measures discussed above.

1.27 This discrepancy appears to be consistent with the overall trend within the industry of a stronger recovery for leisure than for, in particular, commuting, as outlined in our most recent passenger rail usage statistics, and with the particular focus of open access operators on leisure markets (see Section 3 below).

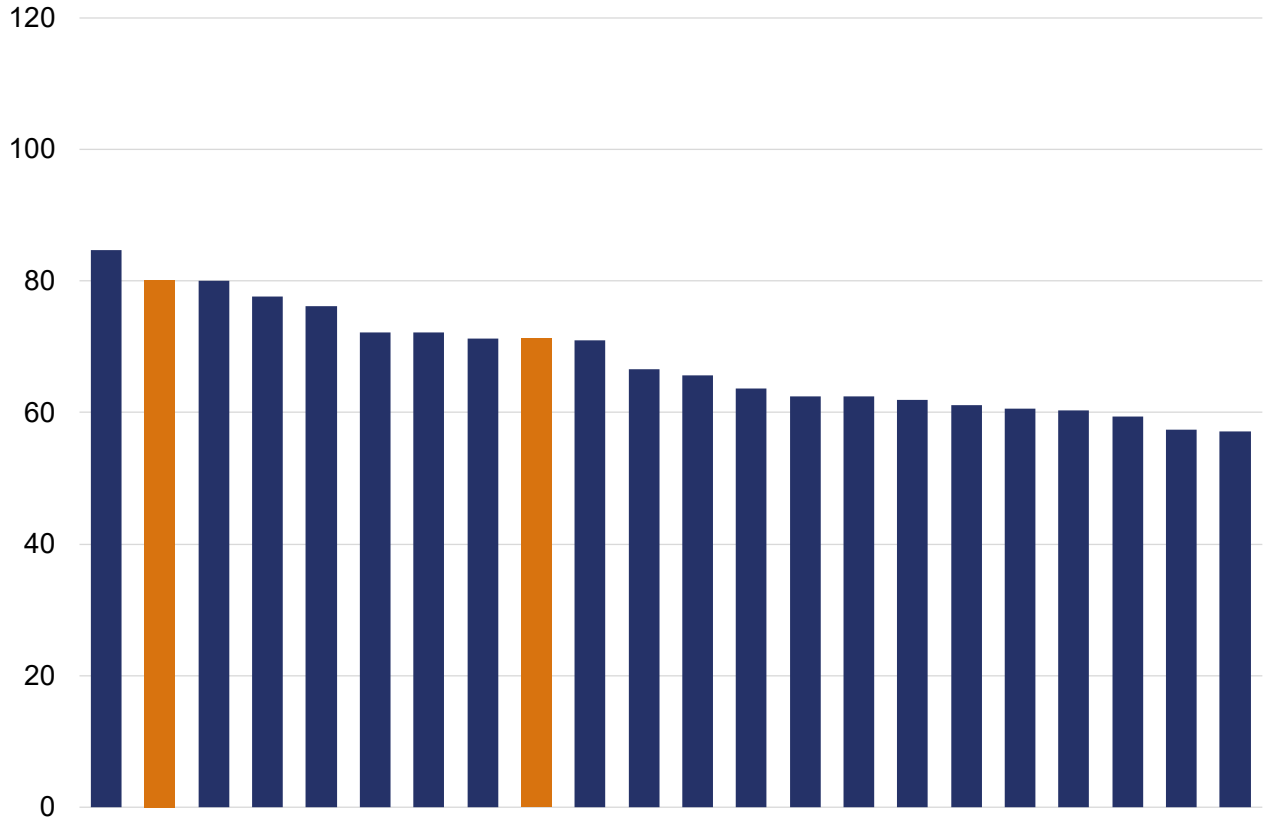
1.28 In the Figures below we compare 2019 and 2022 journey numbers and revenue for all operators, across all market segments (i.e. not just long distance) who were active in both 2019 and 2022, with data for Grand Central and Hull Trains highlighted. We have anonymised data for individual companies given the potential commercial sensitivity of the company revenue data in particular.

Figure 1.10 Number of journeys, all operators excluding Lumo, anonymised, Grand Central and Hull Trains highlighted, Great Britain, annual data, 2022 compared with 2019 (indexed, 2019 = 100),



Source: LENNON data. Available on ORR's data portal in Passenger rail usage statistics.

Figure 1.11 Real terms passenger revenue, all operators excluding Lumo, anonymised, Grand Central and Hull Trains highlighted, Great Britain, annual data, 2022 compared with 2019 (indexed, 2019 = 100),



Source: LENNON data.

1.29 Revenue data suggests a recovery less marked than that shown by volume data. This appears to be particularly true of open access operators.

1.30 Overall, the available post-pandemic data points towards a recovery in demand that is:

(a) Considerably stronger in volume than revenue terms; and

(b) Stronger for open access operators than their contracted equivalents, although this effect is noticeably more pronounced in volume than revenue terms.

1.31 These passenger market trends are something that we will continue to monitor.

Other developments in the open access market

A new operator: Grand Union Trains

1.32 In December 2022, we approved a new train service on the Great Western Main Line, between Carmarthen and London.

1.33 The services will be operated by a new open access operator, Grand Union Trains, bringing competition to the Great Western route out of Paddington.

1.34 Grand Union Trains' services will be operated by new build bi-mode trains operating between Carmarthen and London, calling at Llanelli then Gowerton (pending the building of a new parkway station at Parc Felindre north of Swansea), Cardiff Central, Newport, an upgraded Severn Tunnel Junction then Bristol Parkway before operating non-stop onwards to London. The use of Gowerton and then Parc Felindre as a parkway station for Swansea will reduce journey times between these parts of Wales and Cardiff and London by around 20 minutes.

1.35 Grand Union Trains advertises that, in addition to selling advance tickets, passengers will also be able to buy tickets on the train, with prices significantly below the inter-available fare. Passengers will also be able to use railcards for on-train ticket purchase.

1.36 Grand Union Trains could also offer a new freight service, where its passenger service could also transport light and urgent freight by utilising empty space in the non-passenger part of our trains where possible.

1.37 Passengers travelling on the Great Western route will benefit from an extra five daily return services and greater choice of operator.

1.38 Grand Union Trains has access rights to run services from December 2024.

1.39 Grand Union Trains has also submitted an application to ORR to operate a new service between Stirling and London via the West Coast Main Line. Network Rail has now confirmed it has no objection to the proposed paths identified. Grand Union Trains is hopeful ORR will be in a position to make a decision before the summer of 2023.

Lumo

1.40 In our 2022 report we reported on the introduction of services from a new open access operator, Lumo, owned by First Group. We further explained that Lumo

has positioned itself as a low-cost operator offering significantly lower fares than competing operators.

1.41 In the Figure below, we present a summary of the lowest available standard class single fare across Lumo and LNER on a Wednesday in May 2023, five weeks ahead of the departure date. This comparison intends to provide only a snapshot and is not directly comparable with overall fare levels on other operators. They represent, therefore, an example of the nature of price competition on key flows.

Figure 1.12 Standard single fare price comparison by flow, Lumo and LNER, May 2023

Source: Data collected by ORR from lner.co.uk and lumo.co.uk

1.42 We note that the lowest fares offered by Lumo and LNER on the Edinburgh to Newcastle route is substantially the same, Lumo being 40 pence cheaper. However, whilst Lumo is over a third cheaper than LNER on the London to Edinburgh route, LNER is over a third cheaper than Lumo on the Newcastle to London route. In light with the data collected, we observe that LNER and Lumo compete on price.

2. What operators are saying

2.1 Throughout March 2023, we held a series of online meetings with relevant stakeholders (e.g. existing and aspiring open access operators, contracted operators, and an independent passenger representative body. In these discussions we asked market participants about their views on developments in the market and passenger experience; and, consistent with our previous report, their views on barriers to entry and expansion for open access operators.

2.2 We summarise the key themes arising from our discussions below. The publication of these comments does not constitute ORR endorsement of the points raised.

Rail reform

2.3 Respondents mentioned that rail reform was a source of concern. It was perceived by many that the concept of open access was not universally supported by those involved in restructuring the industry and there was a threat that open access would not feature in the future. Some respondents said that this uncertainty had started to affect their ability to secure funding from investors.

Pandemic recovery

2.4 As previously highlighted in our 2022 update, there has a been a change in passenger demand post pandemic, with commuting and long-distance business travel remaining below pre-pandemic levels, whilst leisure journeys have recovered very strongly and are still growing.

2.5 All open access operators told us that the industry was recovering, and a positive dynamic was growing back in the market:

(a) Open access operators explained that the change in the profile in demand towards leisure travel (see Section 1 above) had been beneficial to them, since all strongly target leisure passengers.

(b) Open access operators told us that passengers have become more environmentally conscious, and rail is perceived as offering a more sustainable alternative to airlines for longer distance journeys. As such, the competition between rail and airlines was mentioned as a source of growth.

They explained that issues with airlines and airports over the past year, have benefitted them.

2.6 Operators interested in entering the market confirmed that they had assessed the impact of the pandemic on their business plans, but the general view was that it had not materially undermined the business case for new services.

Track access application process

2.7 Similar points to those raised in our initial monitoring report in February 2020 were also raised this year, respondents raised a number of practical issues in relation to the track access application process. Although, respondents highlighted the quality of work provided by Network Rail and ORR, a lack of transparency and flexibility surrounding Network Rail and ORR processes was cited by several stakeholders, who argued that this constrained their ability to plan and secure investors effectively. Some respondents highlighted that, in line with its guidelines, ORR follows a 12-week process to review a track access application but, in practice, often needs more time than 12 weeks to reach a final decision. Stakeholders argued that the lack of a reliable timeline makes planning difficult and leads to additional costs.

2.8 However, in relation to the practical issues raised in paragraph 2.7 above, respondents acknowledged that Network Rail and ORR were dependent on other stakeholders (e.g. the Department for Transport), which may impact the timeline.

2.9 Respondents also argued that there is a discrepancy in the type of analysis that is required when open access operators and contracted operators apply for access, creating an unlevel playing field.

Access to rolling stock

2.10 Our last monitoring report published in April 2022 highlighted the challenges associated with gaining access to suitable rolling stock and the barrier to entry and expansion which this can pose.

2.11 This year, open access operators shared mixed views on whether the availability of rolling stock continued to present a major barrier for launching an open access or commercial operation. All operators recognised that old rolling stock was coming off hire as the big franchise operators upgraded their fleets but some had experienced difficulty getting access to it whilst others opined that the maintenance costs of older vehicles was so high it was more cost effective to buy

new. However, getting access to new vehicles was also very difficult because open access operators typically order far fewer vehicles than the manufacturer's minimum order amount to commence a production run.

2.12 Overall, open access operators highlighted that while rolling stock availability was clearly a key factor to enter the market, it was not the main barrier.

Driver recruitment

2.13 One respondent cited driver recruitment as a barrier to launching new open access services. They explained that driver numbers were still low. They argued that in order for open access operators to attract experienced train drivers they would have to offer remuneration in excess of the going rate.
Therefore, it falls on the open access operator to find new candidates and train them, which may be a lengthy process.

Decarbonisation

2.14 One respondent shared concerns in relation to the government's net zero strategy (to reduce the country's greenhouse gas emissions to net zero by 2050). They explained that the industry still relies too heavily on diesel. They acknowledged the need for the transport sector to be active and become part of the solution but the non-availability of carbon neutral rolling stock and infrastructure to support this was holding it back. They questioned the clarity of the overall outlook and the strategy and actions from the Department for Transport and UK rolling stock companies.

Conclusion

2.15 Our engagement with operators suggested cautious optimism, with important improvements since 2019 in the overall outlook for open access. This is consistent with our analysis of passenger and revenue recovery noted in the previous section. Nevertheless, open access operators still face challenges in the current market conditions.

This publication is available at orr.gov.uk

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